MANITOBA TELEPHONE SYSTEM

ANNUAL REPORT 1981-82

MANITOBA TELEPHONE SYSTEM
489 Empress St., Winnipeg, Manitoba

Since 1908

ANNUAL REPORT

for the fiscal year ended March 31, 1982

CONTENTS

Board & Executive 1
Chairman's Report 2
General Manager's Report 2
Highlights of the Report 4
Financial 5
Financial Statements 9
Five Years in Review 15

ABOUT OUR COVER—Since 1908, MTS has been a vital part of the lives of Manitobans. Through its extensive network, built, owned and operated by Manitobans, the System now provides reliable and high quality services to over 97 per cent of the households in the Province. This year's cover salutes the many MTS men and women who, over the years, have helped to make these achievements possible.

75 years of service . . . 1908-1983

MANITOBA TELEPHONE SYSTEM

THE HONOURABLE LEONARD S. EVANS
Minister Responsible for
The Manitoba Telephone Act and Communications

BOARD OF COMMISSIONERS

S.A. MILLER
Chairman

R.J. DOERN, M.L.A.
Vice-Chairman

U.J. CHAPUT

M.L. GARVIE

M.J. STADNYK

J.K. BEATTY
Corporate Secretary

EXECUTIVE COMMITTEE

G.W. HOLLAND
General Manager and Chief Executive Officer

S.G. ANDERSON
Assistant General Manager

G.H. BACKHOUSE
Assistant General Manager, Administration

J.K. BEATTY
General Counsel

O. PEDDE
Director of Marketing

R.F. TINKLER
A/Director of Operations

R.C. VANNEVEL
Director of Finance

D.H. WARDROP
Director of Corporate Development

ADMINISTRATIVE OFFICERS

J.D. ADAM
General Planning Manager

K.A. AXFORD
General Regional Manager—Eastern

M.A. AYSAN
Product Development Manager

J.K. BEATTY
General Counsel

D.L. DELGATTY
General Regional Manager—Western

B.A. GORDON
Corporate Information Systems Manager

M.D. GREEN
Chief Engineer

J.W. JAREMA
Real Estate Manager

E.F. MacKENZIE
Comptroller

B.B. McCALLUM
A/General Plant Manager

W.D. McGOWAN
General Traffic Manager

J.R. MILNE
A/Purchasing, Supplies and Automotive Equipment Manager

F.J. PEARSON
Personnel Manager

F.H. SUTER
General Commercial Manager

G.P. WILSON
General Regional Manager—Northern

GENERAL MANAGER'S OFFICE

H.J. NAULT

M.J. PROVENCHER

G.S. SMITH

CHAIRMAN'S REPORT

Saul Miller

In the short time I have been with the Manitoba Telephone System, I have been struck by the foresight of former MTS Boards and employees that has enabled them to provide Manitoba with a high calibre telephone system.

For decades, this achievement was made possible because the corporation was in the position of having a secure revenue base. MTS, since its inception, has applied income from its major revenue source, long distance and extra charges for discretionary services, to subsidize basic residential rates. This long standing policy has resulted in Manitoba residents enjoying rates that are among the lowest in Canada.

Recent regulatory decisions taken beyond Manitoba borders are now beginning to impact these key revenue sources. There is a recognition within the industry that new technology and alternative providers also will erode the traditional revenue base. These developments present a challenge to the traditional practice of utilizing that revenue base to subsidize the residential consumer and offer basic telephone service at reasonable rates.

To meet this challenge, MTS is attempting to broaden its service and participate in the wider field of communications. The use of expanding communications technology and the adoption of sophisticated managerial and operational techniques are essential to meet existing and future customer needs and expectations and to recognize basic alterations in the nature of the telecommunications industry.

Our objective will be to continue to provide basic services at reasonable cost while meeting the unique emerging demands of the 1980s and beyond.

Over the years, MTS has deserved its reputation for competence and foresight, which extends well beyond Manitoba. With continuing public understanding and support, we shall be able to continue to serve the telecommunication needs of Manitobans in the future.

S. M. Miller

Chairman of the Board

GENERAL MANAGER'S REPORT

Gordon Holland

To meet increasing demands for service, maintain its plant at high standards and provide an increasing array of services, MTS incurred capital expenditures during the 1981-82 fiscal year of $103.6 million. This brought the total investment in Manitoba's telecommunications network facilities to $879.8 million by the end of the year.

Long distance services continue to contribute substantially to MTS revenues, providing 60 per cent of the System's total earnings and contributing to the favourable financial situation during 1981-82. Improvement in the Canadian dollar's relationship to foreign currency reduced provisions for the servicing and repayment of outstanding foreign debt.

Operating revenues increased by 11.5 per cent, total operating expenses rose by 15.6 per cent, resulting in net revenues for the year of $6.1 million. It became necessary for MTS to apply to the Public Utilities Board on March 11, 1982, for revised rates to meet projected needs in 1982-83 and subsequent fiscal years. The previous application for new rates was made on November 17, 1978, and revised rates became effective April 1, 1979.

The growing demands on our network are reflected in the 1.39 billion local calls and more than 66.5 million long distance calls placed during the year. The addition of 23,727 new telephones by residential

and business customers raised the total to 736,710 telephones in service in Manitoba at year's end.

The System's $34 million Rural Service Improvement Program was completed in1981, improving the service of some 58,000 customers. This five-year program introduced single-party telephone service to many communities and substantially reduced the number of customers on party lines Province-wide.

As economic and other considerations permit, MTS proposes to increase the number of exchanges having free-calling with neighboring exchanges. A two-year, $6 million program was proposed this year to bring Extended Area Service to 20 additional exchange areas between 1983 and 1985, adding to the 111 exchanges already so serviced.

In the rapidly changing telecommunications environment, the Manitoba Telephone System continues to provide an expanding and sophisticated range of communications services that contribute to the well-being of the Province.

The System's business services were enhanced during the year with the expansion of the Datapac service to Thompson, the introduction of the Envoy 100 messaging service, and improvements in business communication systems.

The challenge of providing modern communications to Manitobans is being met through the efforts of the 4,636 MTS personnel located throughout the Province. Their ability and dedication have enabled us to make significant improvements during the past fiscal year.

MTS is installing a 130 kilometre fibre optic transmission network which, over the next two years, will link a number of Winnipeg exchanges, and extend to exchanges in Stonewall and Beausejour. Linked to digital switching equipment, this network will have higher carrying capacity using less space than conventional copper cable and at lower cost.

The introduction of cable television was made possible in Swan River, Beausejour, Gladstone, Stonewall, Virden, Souris, Deloraine, Killarney, Boissevain and Thompson through the construction of local broadband networks.

A new MTS Eastern Region Administration Building, housing some 120 employees, was officially opened in Selkirk in December, 1981. This and other improvements made in System operations in various communities during the year were designed to bring MTS closer to its customers and to enable more responsive decision-making based on local requirements.

Four new MTS Phone Centres were opened this year in Flin Flon, Swan River, Selkirk and Winkler, enabling customers in those communities to shop in person for their telephone equipment. There are now seventeen Phone Centres in operation in the Province.

On March 5, 1982, the Government of Manitoba announced a new policy under which Manitobans may now connect their own residential extension telephones to the public network. MTS will continue to supply the main or first set, and lease extensions with full maintenance service. The System will continue to supply all telephone equipment for business customers.

December 31, 1981, marked the completion of Project Ida in Headingley. A successful technology experiment, Project Ida was designed to test the feasibility of providing various services over a coaxial network, including digital telephone service, alarm services, automatic meter reading, cable television and videotex information. This important investment in the future has permitted MTS engineers, computer specialists, and others to become familiar with emerging technologies and services.

Another trial, the first of its kind, was officially inaugurated in October, 1981, in the Elie-St. Eustache area, providing participants with video, voice and data telecommunications service over a fibre optics network. The five sponsors of the trial—the Federal Department of Communication, Canadian Telecommunications Carriers Association, MTS, Northern Telecom Canada Ltd. and Infomart—are confident this 18 month project will contribute to the development of this technology which offers special potential benefits to telecommunications users in rural areas and smaller towns.

MTS has established a subsidiary under the name, MTX Telecom Services Inc., to undertake projects outside the Province of Manitoba, in order to contribute financially to MTS operations and broaden employees' experience.

The System has continued to meet the demand for a greater array of communications services by Manitobans, while at the same time improving the quality of its traditional services. In doing so, MTS has fulfilled its obligation to maintain and expand one of the Province's key resources—its communications network, which has played a significant role in bringing the people of Manitoba together.

General Manager and
Chief Executive Officer

HIGHLIGHTS OF THE REPORT

EXPANSION OF SERVICES

- Telephones increased 23,727 to total 736,710
- Long distance calls increased 9.9 percent to total 66.5 million
- Four Phone Centre stores opened
- ANI service provided to 5 additional exchanges
- $34 million Rural Service Improvement Program completed

CONSTRUCTION TO MEET DEMAND

- 3,445 kilometers of wire and cable buried
- Local coaxial networks completed in 11 communities

FINANCIAL

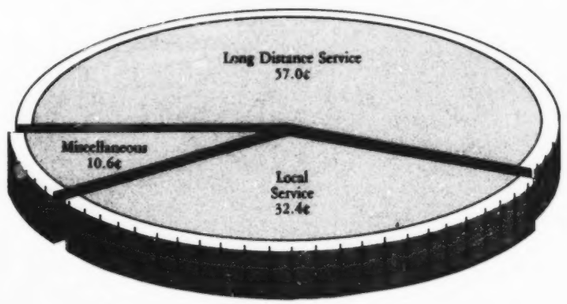
	1982	1981
• Capital Expenditures	**$103,692,000**	$ 82,741,000
• Value of Telephone Plant	**879,863,000**	793,034,000
• Operating Revenues	**244,554,000**	221,073,000
• Operating Expenses	**196,807,000**	164,616,000
• Other Revenues	**11,832,000**	8,767,000
• Debt Charges	**53,397,000**	51,775,000
• Net Revenue	**6,182,000**	13,449,000

OUTLOOK FOR COMING YEAR

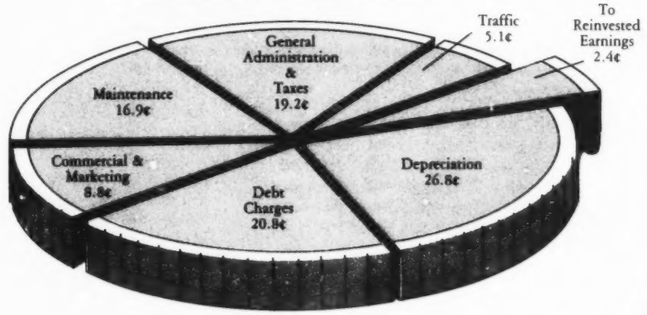
- Forecast capital expenditures of $120,000,000
- Continued service improvement in rural Manitoba
- Expanded telephone network in Northern Manitoba

THE MTS DOLLAR FOR THE YEAR ENDING MARCH 31, 1982

WHERE EACH DOLLAR COMES FROM



WHERE EACH DOLLAR WENT



FINANCIAL

Net revenues for 1981-82 totalled $6,182,000 compared with $13,449,000 for the previous year. Revenues from all sources amounted to $256,386,000, an increase of 11.5 per cent, while total expenses increased by 15.6 per cent to reach $250,204,000.

Long distance service provided 60 per cent of the System's operating revenues and at $147,341,000, increased by $14,757,000 over 1980-81. Two thirds of the System's long distance revenues were derived from the provision of inter-provincial and international services undertaken in conjunction with the other member companies of the Trans Canada Telephone System.

Local revenues increased by $7,200,000 to reach $83,728,000. Miscellaneous revenues increased by $2,346,000, most of which arose from directory advertising revenues. Other revenues increased by $3,065,000 with 65 per cent of this gain being attributable to interest earned on investment.

Depreciation of telecommunications property totalled $68,776,000, an increase of $15,857,000 over the previous year. Maintenance and operation of the network required an expenditure of $56,150,000. Commercial, Marketing, General and administration costs amounted to $67,483,000. Total operating expenses increased 19.6 per cent to $196,807,000.

Debt charges were $53,397,000 for the year, up $1,622,000 from 1980-81. Interest on long-term debt increased by $2,069,000 to $44,781,000. Other interest expense and debt charges were up $1,493,000 from 1980-81. The majority of this increase, $1,189,000, was due to interest on short-term debt. Amortization of unrealized foreign currency losses amounted to $5,568,000, down $1,936,000 from the previous year, reflecting an improvement in the relationship of the Canadian dollar to the foreign currencies at the year end date.

New borrowings during the year consisted of $14,450,000 in short-term notes and $87,626,000 in advances from the Province of Manitoba. $57,258,000 of long-term debt was retired during the year with $7,358,000 of the repayment being provided from the Sinking Fund. Contributions to the Sinking Fund of $6,129,000 were made as required under the Manitoba Telephone Act. The Board authorized contributions to the investment fund of $5,568,000 related to the amortization of unrealized foreign currency losses.

New telecommunications property added during the year amounted to $103,692,000, an increase of $20,951,000 over the previous year. Total telecommunications property as at March 31, 1982 was $879,863,000 and represents an average investment in Plant of $1,194 per telephone.

On January 15, 1982, MTX Telecom Services Inc., a wholly-owned subsidiary company, was formed for the purpose of conducting consulting, sales and telecommunications activities outside the Province of Manitoba. The System's investment in MTX as at March 31, 1982 was $567,025, which consisted of 20,001 common shares at a value of $500,025 and net operating advances of $67,000.

The new MTS Eastern Regional Administration Building in Selkirk was officially opened on December 10, 1981, enhancing and improving service by bringing employees closer to the customers they serve.

CUSTOMER SERVICES

Manitobans increased their use of telephone service during 1981-82, making about 1.39 billion local calls, up more than 53 million calls from the previous year. This record utilization of the MTS networks was met with improved standards of service.

The number of telephones in service totalled 736,710 at the end of the year, an increase of 23,727 sets from 1980-81. More than 97 per cent of households in Manitoba have MTS service.

As part of MTS's continuing commitment to provide modern, efficient telecommunications service to all areas of the Province, the System's $34 million Rural Service Improvement program was completed in 1981. Under the program, some 45,200 customers benefitted through reduction of multi-party line loadings to no more than four per line (with an average of 2.8), while individual line service was provided to another 13,400 customers in 193 communities.

Manitobans' long distance calls to other provinces and countries are facilitated through MTS's membership in the TransCanada Telephone System, which observed its 50th anniversary year in 1981. MTS has been an enthusiastic member of TCTS since 1931.

Customers continue to prefer the convenience of dialing their own long distance calls, which also results in reduced operational costs for MTS. Approximately 85 per cent of the 66.5 million long distance calls made by Manitobans in 1981-82 (an increase of 9.9 per cent from the previous year) were completed by Direct Distance Dialing. Direct Distance Dialing capability was provided for the first time to subscribers in Benito, Birch River, Bissett, Eddystone, Ethelbert, Fork River, Manigotagan, Rorketon and Winnipegosis in 1981-82, raising the availability of this service to 92 per cent of exchanges and 99 per cent of customers in the Province.

Further enhancing long distance services, Direct Dialing Overseas (DDO) and Zero Plus (0+) are available to about 75 per cent of our customers. DDO allows customers to dial their own overseas calls to any of 50 countries, while 0+ permits customers to dial their own collect, person-to-person and credit card calls, calls billed to another number and calls which require time and charges information.

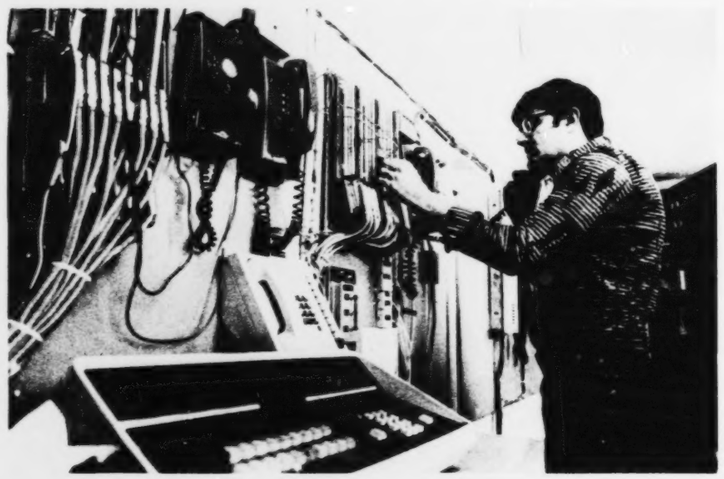
About 85 per cent of all Manitoba's telephones are now served by Automatic Number Identification equipment which automatically records customer's numbers when a long distance call is made. During the year exchanges in Dominion City, Elm Creek, God's Lake Narrows, Norway House and St. Pierre were given ANI capability.

Manitobans are now served by 12 different MTS telephone directories, split into Winnipeg, Provincial and 10 Regional books. The 1981 Winnipeg directory was divided into two: a white pages book and a yellow pages volume, making the size of the directory easier for customers to handle. A blue pages section containing the Federal and Provincial governments' and City of Winnipeg listings was added to the 1981 Winnipeg directory to provide more convenient access to government services for our customers. Alphabetical telephone listings were also added to all 10 regional directories and surveys indicated that usage of the regional books had increased substantially in 1981.

IMPROVED NORTHERN SERVICE

MTS is committed to improved telephone service to Northern areas of the Province and steps were taken during the past year to extend and expand the network to 14 remote communities.

A $3.7 million program is under way to provide regular exchange and long distance service during 1982 and 1983, to over 3,000 residents in the communities of Anama Bay, God's River, Jackhead, Little Black River, Matheson Island, Paungassi, Pine Dock, Sherridon, Split Lake and York Landing. The communities of Brochet, Lac Brochet, Tadoule Lake and Shamattawa will receive a single channel toll service, provided via an Anik satellite, to replace their previous radio telephone services.



Testing the features of an electronic exchange is part of a day's work for programmer Norm Martin as he keeps service up-to-date for customers.

A new communications system installed for the RCMP in Northern Manitoba in 1981 uses existing MTS microwave tower sites to relay calls from dispatch centres in Thompson and The Pas, through a private channel, to police patrolling the area.

MTS and the Manitoba Department of Natural Resources implemented a comprehensive early warning communications system in 1981 to locate, identify and respond to the first signs of fire in the Province's woodlands. The new system integrates MTS private mobile repeaters into the public telephone network, extending the communications range into areas that would be unreachable using conventional mobile technology.

IMPROVEMENTS TO THE SYSTEM

MTS invested almost $104 million under the 1981-82 capital construction program, an increase of about $21 million from the previous year. To provide its customers with the highest quality services at the lowest possible cost, the System utilized the most recent technological advances in building and modernizing facilities.

Restructuring of MTS operations on a regional basis has enabled the System to relate more closely with the communities it serves. A new Eastern Region Administration Building was officially opened in Selkirk on December 10, 1981, housing about one-quarter of the approximately 500 System employees in the region.

New Phone Centres were opened during the past year in Flin Flon, Selkirk, Swan River and Winkler, bringing to 17 the number of such stores in operation throughout the Province. The Phone Centres provide customers with faster service, lower service charges and the ability to shop for various telephone equipment at their convenience.

In keeping with the System's program to bury plant facilities, a total of 3,445 kilometers of buried cable and wire were added to the network in 1981-82. At the same time, the amount of aerial wire was reduced by 1,306 kilometers. As of March 1982, 93.8 per cent of the total telephone wire and cable in service was underground.

MTS has long been commited to conserving energy and finding alternate sources of fuel for its vehicle fleet. Since November, 1980, it has been testing the viability of propane as a fuel in System vehicles, to conserve energy and reduce costs, and the results have been cost effective. The two-year project, conducted in co-operation with the Federal and Provincial governments, involves 57 vehicles running on propane, with at least 20 more conversions expected by March 31, 1983. Fuel cost savings are anticipated to offset cost of the conversions to propane within two-and-a-half years, rather than the four years initially projected, with an average expense reduction of 3.75 cents per kilometer of operation. In addition to lowered fuel costs, improvements have been noted in engine service requirements and emissions.

On March 1, 1981, MTS also began a two-year program of testing gasohol in System vehicles.

Registering MTS securities, Treasury Manager Laura Allan heads a section responsible for the System's day-to-day money management and financial planning.

Savings are expected to result from its cleaner burning qualities, which should prolong engine life.

NEW PRODUCTS AND SERVICES

The System operates in a changing business environment. Improvements in both computer and voice communications services during the past year afforded new opportunities for MTS marketing groups to respond to the needs of the business community.

Envoy 100, a new national store-and-forward electronic messaging service, became available as an MTS computer communications service in November, 1981. By March, 1982 there were 50 commercial customers on this network, with a total of 436 participants using the service as part of their regular business operations.

Commercial customers in Thompson have better access to data transmission services with the extension of Datapac service to the Northern centre. Thompson is the third Manitoba community to be added to this national computer-controlled network. The new service augments DataRoute and Data-Stream networks introduced in Thompson in 1980-81.

Telidon service became a public offering in September when "Grassroots" videotex service was implemented. Videotex is a technology which allows access to information in a computer data base via a keypad and a video display terminal. The Grassroots service gives the farming community the opportunity to obtain up-to-the-minute agricultural information, such as weather reports, grain prices and livestock reports, from the data base. Terminals have been placed in the offices of local agricultural representatives, at grain terminals and credit union offices.

Two new Business Communications Systems products were introduced during the past year to assist small-to-medium sized businesses requiring full-featured telephone switchboards. One allows direct key selection of most features, for a customer requiring a maximum of up to 6 lines; the other is designed for customers with a requirement of up to 45 lines.

Businesses across Manitoba wishing to lease a local telephone number in a distant exchange and receive

and pay for incoming client calls have been provided with Remote Call Forwarding (RCF) service since May, 1981.

A new emergency reporting service using the existing telephone network, known as FAST, was introduced by MTS during the past year. The service is offered to private alarm companies; they, in turn, provide it to homes, apartments and businesses for 24-hour fire, intrusion or medical emergency reporting. As of March 31, 1982, there were 400 users of this service.

Other examples of special business requirement installations in 1981-82 were: an Automatic Call Distributor (ACD) system to serve the reservation operation of a major airline for customers in Ontario, Manitoba, Saskatchewan and Northern Alberta; an improved telephone answering service for a major Winnipeg client; and a computerized Bridal Registry system developed by MTS for a major department store's outlets in Regina, Saskatoon, Brandon, Winnipeg and Toronto.

To provide customers with an opportunity to see and use equipment recommended for their businesses, MTS opened a Business Sales Centre in Winnipeg. Customers can obtain "hands-on" experience with various communications systems. Trained sales representatives demonstrate the features and benefits provided by the various products and services offered by MTS.

CABLE TELEVISION

In its role as the common carrier of television signals in the province, the Manitoba Telephone System has contributed significantly to the extension of television service in Manitoba.

MTS coaxial cable facilities are now available in 35 urban centres throughout the Province with service available to 81 per cent of Manitoba households; 79 per cent of these currently subscribe to the cable service through 10 licensed cable operators.

In the 1981-82 fiscal year installations were completed in Swan River, Beausejour, Gladstone, Stonewall, Virden, Souris, Deloraine, Killarney, Boissevain, Elie-St. Eustache and Thompson. The Thompson installation represented a major replacement of Manitoba's first cable system installed in Thompson in 1963 and coincided with the licensing of a new cable television operator. With this installation, television service in Thompson has been markedly improved and is enjoying a high degree of public acceptance.

The Canadian Radio-television and Telecommunications Commission (CRTC) has licensed a cable service for the Elie-St. Eustache area and MTS is providing television services to residents of these communities using the new fibre optic network installed in conjunction with the industry field trial in these communities.

During the year, MTS acquired ownership of the local distribution facilities of Valley Cablevision Ltd. in Carman, Morden, Winkler and Altona. A contract has been concluded covering provision of service to these centres, as well as Steinbach. Under this contract, MTS will provide facilities for the delivery of the standard American TV signals through existing intercity networks (ICBN).

Plans were also developed, with engineering completed during the year, to further extend cable service to the communities of Russell, MacGregor, Melita, Roblin and Gimli. It is expected that these installations will be completed during the 1982-83 construction year.

These extensions of service are in accordance with Provincial policy to improve the variety and quantity of television services available in the larger population centres throughout the Province.

Satellite technology has also been used to achieve these goals. The Inter-City Broadband Network is presently confined to the southern portion of the Province, and MTS has distributed programming received by satellite ground receive stations for cable service operators in The Pas, Flin Flon and Thompson. On January 5, 1982, the CRTC awarded licenses to operators in Flin Flon, The Pas and Thompson to carry the Canadian Cancom service distributed via Canada's Anik satellites.

Considerable work was undertaken during the year in anticipation of the requirement to augment the two Winnipeg cable networks. These systems, installed during the 1967-69 period, are of an early design having capacities in the 12 to 20 channel range. Growth in the Winnipeg area since these systems were built and recent CRTC decisions to permit cable licensees to offer pay-TV and other services now necessitate the re-building of these networks.

ADMINISTRATIVE

Saul A. Miller was appointed by order of the Lieutenant Governor-in-Council in December as the Chairman of the MTS Board to succeed W. John A. Bulman.

Robert F. Tinkler, General Plant Manager, was appointed in March, 1981, as Acting Director of Operations, replacing Ed Peterson, who went to Saudi Arabia on an on-loan assignment with Bell Canada International. Brian B. McCallum was appointed as Acting General Plant Manager and he was succeeded by John Milne as Acting Manager of the Purchasing, Supplies and Automotive Equipment Department.

F. H. Suter was appointed in May as General Commercial Manager. He was succeeded as General Regional Manager— Northern by Glenn P. Wilson, formerly the Marketing Manager, Business.

Barry A. Gordon was appointed in September as Corporate Information Systems Manager, replacing William B. McMinn, who passed away in August.

ACKNOWLEDGEMENTS

The System is grateful for the interest and support shown in its operations during the 1981-82 fiscal year by the Ministers responsible for the administration of the Manitoba Telephone Act and Communications: the Honourable Donald W. Orchard and, subsequently, the Honourable Leonard S. Evans.

During the past year, there were 56 employees who retired; their average length of service at MTS was 29 years. Included among those who retired was Lloyd F. Goodman, Disbursements Manager, after 45 years' service. Mr. Goodman completed his long and varied career with MTS in November. The System acknowledges with gratitude their invaluable services and wishes them well in their retirement years.

The System's 4,636 employees deserve recognition for their substantial contributions to the high quality of service provided by MTS. The progress achieved by the System during the year is largely due to their dedication and enthusiasm.

FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

The integrity and objectivity of the financial statements and accompanying notes in the annual report are the responsibility of management.

To fulfill this responsibility, The Manitoba Telephone System maintains internal control systems to provide reasonable assurance that the books and records, from which the financial statements are derived, accurately reflect all transactions and that established policies and procedures are followed. The internal control systems are supported by regular reviews by internal auditors and by examination of the financial statements by Thorne Riddell, independent chartered accountants.

The responsibility of the Board of Commissioners for the statements is pursued principally through its Audit Committee, which meets periodically with management and the internal and external auditors, to review accounting controls, results of audits and accounting principles and practices.

The external auditors have full access to the Audit Committee both with and without management present. Their report, which provides an independent review of the system of internal controls and the compliance of the statements to generally accepted accounting principles, follows.

On behalf of management:

General Manager

Director of Finance

Thorne
Riddell

AUDITORS' REPORT

We have examined the balance sheet of The Manitoba Telephone System as at March 31, 1982 and the statements of operations and reinvested earnings and sources of funds used for construction for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of The Manitoba Telephone System as at March 31, 1982 and the results of its operations and sources of funds used for construction for the year then ended in accordance with the basis of accounting described in note 1(a) applied consistently with that of the preceding year.

Thorne Riddell
Chartered Accountants

Winnipeg, Canada
June 2, 1982

THE MANITOBA TELEPHONE SYSTEM

STATEMENT OF OPERATIONS AND REINVESTED EARNINGS

	Year ended March 31	
	1982	1981
	(thousands of dollars)	
OPERATING REVENUES		
Long distance service	**$147,341**	$132,584
Local service	**83,728**	76,528
Miscellaneous (note 2)	**15,678**	13,332
Less uncollectible operating revenues	**(2,193)**	(1,371)
	244,554	221,073
OPERATING EXPENSES		
Maintenance	**43,157**	38,093
Depreciation	**68,776**	52,919
Traffic	**12,993**	12,240
Commercial and marketing	**22,578**	19,492
General and administration	**44,905**	38,057
Operating taxes (note 3)	**4,398**	3,815
	196,807	164,616
NET OPERATING REVENUES	**47,747**	56,457
OTHER REVENUES (note 4)	**11,832**	8,767
NET REVENUES BEFORE DEBT CHARGES	**59,579**	65,224
DEBT CHARGES (note 5)	**53,397**	51,775
NET REVENUES FOR THE YEAR	**6,182**	13,449
REINVESTED EARNINGS AT BEGINNING OF YEAR	**88,694**	75,245
REINVESTED EARNINGS AT END OF YEAR	**$ 94,876**	$ 88,694

THE MANITOBA TELEPHONE SYSTEM

BALANCE SHEET

ASSETS

	March 31	
	1982	1981
	(thousands of dollars)	
TELECOMMUNICATIONS PROPERTY		
Buildings, plant and equipment	**$834,805**	$761,528
Less accumulated depreciation	**313,908**	263,376
	520,897	498,152
Land	**4,583**	3,973
Materials and supplies	**7,580**	6,333
Plant under construction	**32,895**	21,200
	565,955	529,658
INVESTMENTS (note 6)	**1,566**	1,519
INVESTMENT FUND (note 7)	**27,717**	22,149
CURRENT ASSETS		
Temporary cash investments	**10,430**	2,750
Accounts receivable	**29,382**	26,911
Prepayments	**4,086**	2,965
	43,898	32,626
DEFERRED CHARGES		
Unrealized foreign currency losses less amortization	**30,206**	45,644
Unamortized long-term debt expenses	**3,747**	4,084
Preliminary engineering and miscellaneous	**1,775**	1,508
Deferred sick leave vesting, less amortization	**4,156**	3,967
	39,884	55,203
	$679,020	$641,155

Approved on behalf of the Board

S. H. Miller
Chairman

LIABILITIES

	March 31 1982	March 31 1981
	(thousands of dollars)	
LONG-TERM DEBT (note 8)	$556,099	$535,265
Less sinking fund investments	41,263	42,492
	514,836	492,773
NOTES PAYABLE	14,450	15,570
REINVESTED EARNINGS	94,876	88,694
DEFERRED LIABILITY		
Sick leave vesting	10,906	7,087
CURRENT LIABILITIES		
Outstanding cheques less cash in bank	2,710	2,789
Accounts payable and accrued liabilities	27,584	21,904
Advance billings and payments	2,436	2,296
Accrued interest	11,222	10,042
	43,952	37,031
COMMITMENTS (note 9)		
	$679,020	$641,155

M. Lamel Garnie
Commissioner

THE MANITOBA TELEPHONE SYSTEM

STATEMENT OF SOURCES OF FUNDS USED FOR CONSTRUCTION

	Year ended March 31 1982	Year ended March 31 1981
	(thousands of dollars)	
SOURCES OF FUNDS		
Internal		
From operations including charges which do not involve an outlay of funds	$ 84,674	$ 75,531
Withdrawal from investment fund		10,000
Decrease in working capital		5,572
	84,674	91,103
External		
Proceeds from sale of investments	520	
Proceeds from short-term borrowings	14,450	15,570
Proceeds from Province of Manitoba advances	87,626	21,000
	187,270	127,673
FUNDS USED FOR OTHER THAN CONSTRUCTION		
Repayment of long-term debt	57,258	29,500
Less payment from sinking fund	7,358	5,750
	49,900	23,750
Repayment of notes payable	15,570	
Contribution to sinking fund	6,129	6,398
Contribution to investment fund	5,568	14,000
Payments toward sick leave vesting	466	368
Increase in investments	881	520
Increase in working capital	4,351	
	82,865	45,036
TOTAL FUNDS PROVIDED FOR CONSTRUCTION	$104,405	$ 82,637
FUNDS USED FOR CONSTRUCTION		
New telecommunications property added	$103,692	$ 82,741
Cost of removing old property	2,438	2,268
	106,130	85,009
Less salvage value of property retired	1,725	2,372
TOTAL FUNDS USED FOR CONSTRUCTION	$104,405	$ 82,637

THE MANITOBA TELEPHONE SYSTEM

NOTES TO FINANCIAL STATEMENTS

Year Ended March 31, 1982

1. SIGNIFICANT ACCOUNTING POLICIES

(a) General
The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles, except for the accounting for pension costs as set out in note 10. The system of accounts and practices are similar to those used by other TransCanada Telephone System members.

(b) Basis of presentation
The investment in the wholly-owned subsidiary, MTX Telecom Services Inc., has been accounted for by the equity method. (see note 11).

(c) Telecommunications property
Telecommunications property is recorded at original cost including materials, direct labour and overhead costs which vary with the level of construction. In addition, the System includes the cost of funds used to finance the construction, based on the duration of the projects.

(d) Depreciation
Depreciation is calculated on a straight-line basis over the estimated useful life of telecommunications property by applying rates which are based on a continuing program of engineering studies.
When depreciable telephone property is retired, the original cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation.

(e) Translation of foreign currencies
Foreign currencies have been translated into Canadian funds at rates of exchange on the following basis:
(i) long-term debt at rates prevailing at March 31, 1982
(ii) accrued interest at rates prevailing at March 31, 1982
(iii) debt charges at rates prevailing at the date of each transaction
The unrealized loss resulting from the policy of using rates prevailing at March 31 is being amortized over the remaining term of the debt.

(f) Sick leave vesting
The initial cost of this plan, which became effective June 1, 1977, is being amortized on a straight-line basis over fifteen years. The annual sick leave entitlements subsequent to June 1, 1977 are being accrued and charged to expense in the year to which they relate. Payments to employees on termination are being charged to the deferred liability.

2. MISCELLANEOUS OPERATING REVENUE

	1982	1981
	(thousands of dollars)	
Miscellaneous operating revenue includes:		
Directory advertising	$11,474	$ 9,785
Rentals and attachments	3,729	3,051
Other	475	496
	$15,678	$13,332

3. OPERATING TAXES

This category represents grants to municipalities in lieu of property taxes, the System's portion of Canada Pension Plan and Unemployment Insurance and general levies.

4. OTHER REVENUES

	1982	1981
	(thousands of dollars)	
This group of revenues includes:		
Interest earned on investments	$ 9,073	$6,888
Surcharge on overdue accounts	961	850
Interest charged to construction	668	183
Recoveries from fibre optics projects	293	66
Net recoveries from foreign contracts	270	252
Miscellaneous	567	528
	$11,832	$8,767

5. DEBT CHARGES

	1982	1981
	(thousands of dollars)	
Debt charges includes:		
Interest on long-term debt	$44,781	$42,712
Amortization of unrealized foreign currency losses	5,568	7,504
Amortization of long-term debt expenses	673	677
Other interest expense and debt charges	2,375	882
	$53,397	$51,775

6. INVESTMENTS

	1982	1981
	(thousands of dollars)	
MTX Telecom Services Inc.		
20,001 Common shares, at cost	$ 500	
Operating advances	381	
Loss from operations	(314)	
	567	
Telesat Canada		
99,900 Common shares, at cost	999	$ 999
intelTerm Systems Limited		
5,200 Common shares, at cost		520
	$1,566	$1,519

7. INVESTMENT FUND

During the year the Board of Commissioners approved additions to the fund of $5,569,000. The fund is comprised of short-term investments held in trust by the Minister of Finance of the Province of Manitoba. Interest on the fund is recorded as income in the period it is earned.

8. LONG-TERM DEBT

(a) Both annual interest and principal on maturity are payable in a currency of exchange at the choice of the holder.

(b) Under the requirements of The Manitoba Telephone Act, the System is required to pay to the Minister of Finance of the Province of Manitoba, as trustee for the sinking fund, an amount which is not less than 1% of the long-term debt outstanding at the end of the preceding fiscal year and 4% of the sinking fund balance at the end of the preceding fiscal year. The market value of the investments held in the fund at March 31, 1982 is $35,088,000 (1981, $36,165,000).

(c) If the System incurs no new long-term debt and assuming exchange rates at March 31 remain unchanged, the following payments will be required to meet sinking fund conditions and debt retirement:

Year ending March 31	Sinking fund payments	Debt retirement
	(thousands of dollars)	
1983	$6,597	
1984	6,861	$77,649
1985	6,171	12,000
1986	6,154	40,047
1987	5,881	64,335

8. LONG-TERM DEBT (continued)

	1982			1981
	Outstanding at rates prevailing March 31, 1982	Foreign exchange adjustment note 1(e)	Outstanding at rates prevailing when debt incurred	Outstanding at rates prevailing when debt incurred
	(thousands of dollars)			
PROVINCE OF MANITOBA ADVANCES				
Series 9W, 9%, due December 5, 1981				$ 15,000
Series 10P, 4½%, due November 1, 1983 (98.6 million Swiss francs)	$ 62,649	$13,527	$ 49,122	49,122
Series 10E, 9¼%, due December 9, 1985 (27.3 million Units of Account)(a)	40,047	5,471	34,576	35,835
Series 10J, 8.6%, due February 28, 1987 (10.4 billion Japanese Yen)	51,835	13,152	38,683	38,683
Series 10V, 9¾%, due December 1, 1988	25,000		25,000	25,000
Series 11E, 14¾%, due July 1, 1991 (40.0 million U.S. dollars)	49,212	1,250	47,962	
Series 11J, 15¼%, due March 31, 1992	40,000		40,000	
Series 10T, 9¾%, due May 15, 1998	12,090		12,090	12,090
Series 11A, 10¼%, due August 1, 1999	20,000		20,000	20,000
Series 9X, 10%, due December 5, 1999	10,000		10,000	10,000
Unfunded advances				21,000
	$310,833	$33,400	$277,433	$226,730
BONDS PAYABLE				
Debentures issued by the System fully guaranteed by the Province of Manitoba				
Series 1A, 5½%, due February 1, 1982				20,000
Series 1B, 5½%, due November 15, 1983	15,000		15,000	15,000
Series 1D, 5¼%, due December 1, 1984	12,000		12,000	12,000
Series 1C, 5½%, due December 2, 1986	12,500		12,500	12,500
Series 1J, 7¾%, due February 15, 1989	10		10	10
Series 1M, 8%, due September 15, 1989	108		108	108
Series 1E, 5%, due January 15, 1991 (14.5 million U.S. dollars)	17,840	2,260	15,580	15,580
Series 1N, 7⅞%, due November 15, 1991	20,000		20,000	20,000
Series 1F, 6¼%, due December 1, 1991	20,000		20,000	20,000
Series 1Q, 6½%, due January 3, 1992 (80.0 million Swiss francs)	50,808	25,768	25,040	25,040
Series 1G, 7%, due February 15, 1993	20,000		20,000	20,000
Series 1P, 7⅞%, due March 15, 1993	10,000		10,000	10,000
Series 1T, 10%, due July 2, 1995	10,000		10,000	10,000
Series 1U, 10½%, due May 1, 1996	20,000		20,000	20,000
Series 1S, 8¾%, due March 1, 1999	37,000		37,000	37,000
	$245,266	$28,028	$217,238	$237,238
	$556,099	$61,428	$494,671	$463,968
Foreign exchange adjustment				71,297
Outstanding at rates prevailing March 31, 1981				$535,265

9. COMMITMENTS

Purchase commitments

Commitments at March 31, 1982, relating principally to the purchase of equipment for future delivery and uncompleted contracts, were approximately $31,057,000.

Lease commitments

The Manitoba Telephone System rents buildings and construction and other equipment under operating leases. The aggregate annual rental of the commitments under the leases, which expire at varying dates to March 31, 1987, are

1983	$2,815,000
1984	1,301,000
1985	1,006,346
1986	505,000
1987	49,000

10. PENSION

Employees of the Manitoba Telephone System are pensionable under the Civil Service Superannuation Fund and make contributions at prescribed rates. The System is required to pay 50% of the Fund's pension disbursements made to retired employees. The payments are charged to general and administration expenses as incurred.

An actuarial evaluation of the Fund was conducted as at December 31, 1980. The results of the evaluation indicate that at the date of review the employees' portion of the Fund was in a sound financial position.

According to the report issued after the evaluation, the unrecorded liability which the Manitoba Telephone System had at December 31, 1981 as a result of the participation of employees under the Civil Service Superannuation Act was:

(a) if no allowance is made for future increases in pension due to increases in the cost of living, $73,368,000

(b) if allowance is made for future increases in pension due to increases in the cost of living, $104,007,000

No provision is made in the accounts to fund current or past service costs.

11. MTX TELECOM SERVICES INC.

MTX Telecom Services Inc., a wholly-owned subsidiary, was incorporated on January 15, 1982 for the purpose of marketing telecommunications equipment and services primarily outside of Manitoba.

The following is a summary of the financial data of this company which commenced operations in January, 1982 (thousands of dollars).

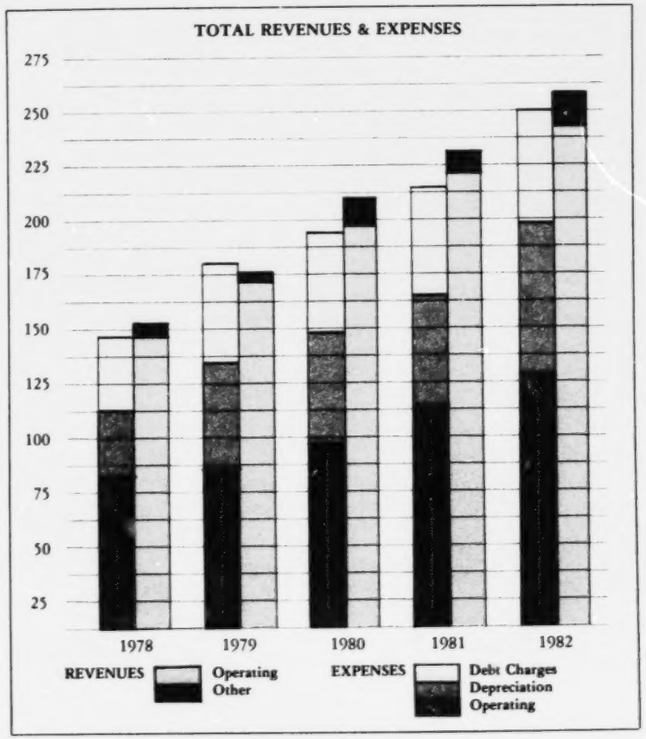
Sales	$ 242
Gross profit	40
Operating expenses	354
Loss	$ 314

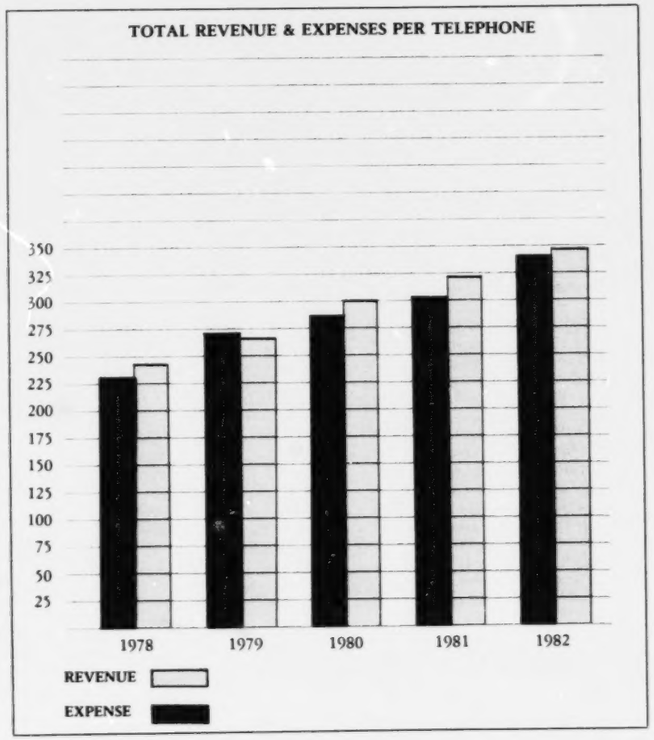
	March 31, 1982
Total assets	$ 901
Total liabilities	715
Shareholder's equity	$ 186

12. CHANGE IN ACCOUNTING ESTIMATE

During the year, the Manitoba Telephone System developed the capability to more accurately determine the amount of accrued sick leave vesting. In prior years, an estimate was used. It was determined that the actual sick leave vesting as at March 31, 1981 exceeded the recorded amount by approximately $2,287,000, of which $825,000 related to the initial cost of the plan. As a result of this change in accounting estimate, the following adjustments have been recorded in the current year.

(a) $1,737,000 has been charged to operations.
(b) $550,000 representing the unamortized balance of the increase in initial costs as at March 31, 1982 has been deferred.





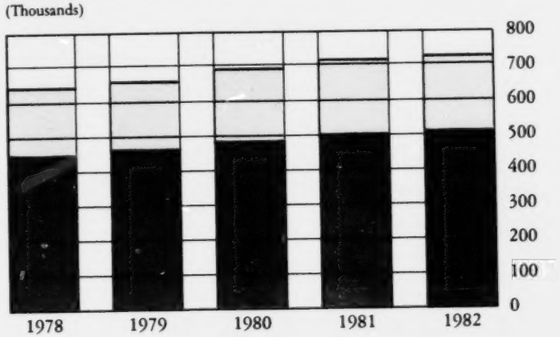
FIVE YEARS IN REVIEW

FOR THE YEAR ENDED MARCH 31

STATEMENT OF OPERATIONS (Thousands of Dollars)	**1982**	1981	1980	1979	1978
Total operating revenues	**$244,554**	$221,073	$198,390	$169,981	$148,178
Total operating expenses	**196,807**	164,616	142,961	124,186	113,731
Other revenues	**11,832**	8,767	9,064	5,987	6,368
Debt charges	**53,397**	51,775	51,308	53,286	34,428
Net revenues (loss)	**6,182**	13,449	13,185	(1,504)	6,387
BALANCE SHEET (Thousands of Dollars)					
Telephone Plant	**$879,863**	$793,034	$730,466	$676,560	$623,791
Accumulated depreciation	**313,908**	263,376	230,709	205,576	186,064
Investments and sinking fund	**70,546**	66,160	60,992	38,259	32,542
Government advances	**310,833**	271,830	275,117	290,541	188,251
Bonds payable	**245,266**	263,435	268,523	271,301	240,238
Construction expenditures	**103,692**	82,741	72,941	71,164	93,184
Reinvested earnings	**94,876**	88,694	75,245	62,060	63,714
TELEPHONE STATISTICS					
Plant investment per telephone	**$ 1,194**	$ 1,112	$ 1,063	$ 1,020	$ 974
Telephones in Service					
Business	**212,772**	209,435	200,512	193,464	186,869
Residence	**523,938**	503,548	486,609	469,988	453,384
Total	**736,710**	712,983	687,121	663,452	640,253
Percent dial	**100.0**	100.0	100.0	100.0	100.0
Telephones added during year	**23,727**	25,864	23,669	23,199	31,092
Average daily local calls (in thousands)	**3,820**	3,675	3,646	3,599	3,577
Average daily long distance calls (in thousands)	**182**	166	154	141	124
OTHER STATISTICS					
Salaries and wages (in thousands)	**$105,456**	$ 91,201	$ 82,708	$ 76,202	$ 72,141
Number of employees	**4,636**	4,677	4,689	4,635	4,718
Employees per thousand telephones	**6.3**	6.6	6.8	7.0	7.4
Long-term debt percentage of total invested capital	**84.0**	83.9	85.6	87.5	85.8
Debt charge coverage ratio	**1.1**	1.3	1.3	1.0	1.2
Effective average debt rate	**9.5**	9.5	9.4	11.0	8.6

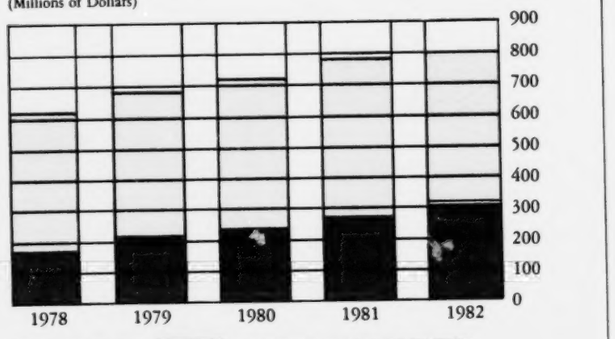
TELEPHONES IN SERVICE

(Thousands)



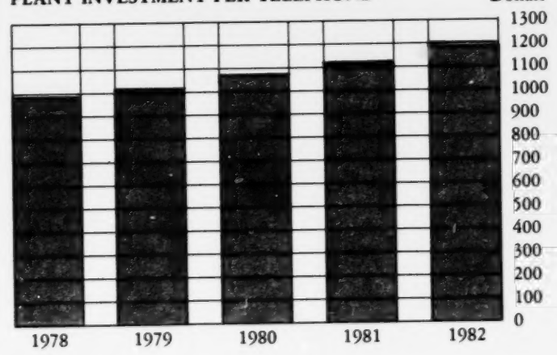
TELEPHONE PLANT

(Millions of Dollars)

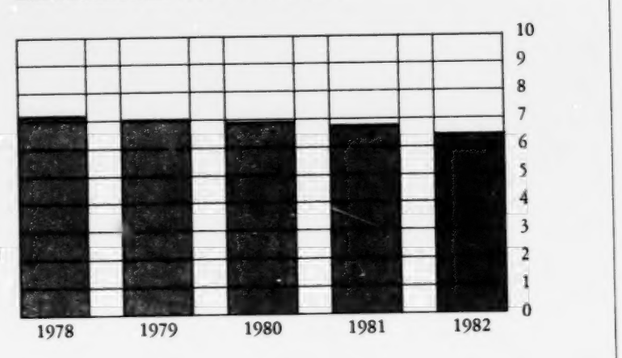


PLANT INVESTMENT PER TELEPHONE

Dollars



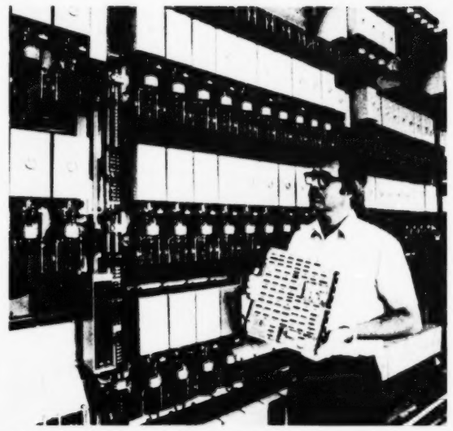
EMPLOYEES PER 1000 TELEPHONES



EMPLOYEES SERVING MANITOBANS IN MANY WAYS.

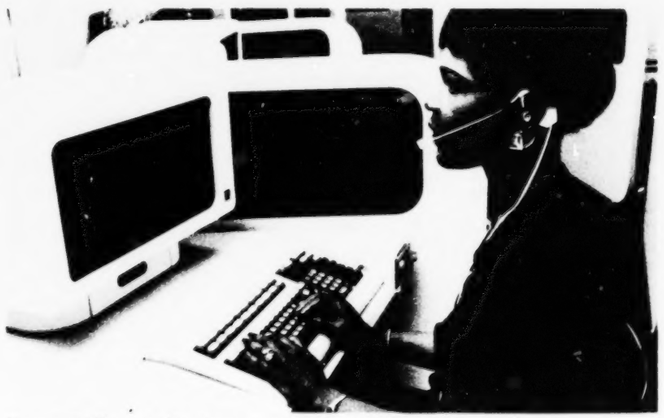
Using a microscope, Eastern Region construction splicer Gord Keith fuses hair-thin optical fibres together, applying new technology that permits communications signals to travel as beams of light over fibres made of glass.

Mary Genyk, Acting Supervisor, toll circuit layout—engineering (standing), and Patti Painter, toll message clerk, are responsible for providing technical information to permit the Plant department to turn up circuits tying switching offices together.



Central officeman Wayne Hedin holds a line card from the new combined local/toll digital multiplex switch installed in Winnipeg to handle long distance calls from Winnipeg and more than 30 provincial central offices. The line card shown replaced about 12 square feet of the step-by-step equipment seen in the background.

Preparing plans that serve as reference for installation of equipment requires assistance from engineering drafting clerk Lisa Davill.



Yvonne Mullings, traffic operator, uses the most sophisticated technology to help customers seeking fast, reliable Directory Assistance.

MANITOBA TELEPHONE SYSTEM

Member Trans Canada Telephone System

ISSN 0381-4564